

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEST LAUREL WATER)	
ASSOCIATION, INC., A WATER ASSOCIATION)	
ORGANIZED PURSUANT TO CHAPTER 273 OF)	
THE KENTUCKY REVISED STATUTES, OF LAUREL)	
COUNTY, KENTUCKY, FOR (1) A CERTIFICATE)	
OF PUBLIC CONVENIENCE AND NECESSITY,)	
AUTHORIZING AND PERMITTING SAID WATER)	CASE NO.
ASSOCIATION TO CONSTRUCT A WATERWORKS)	9960
CONSTRUCTION PROJECT, CONSISTING OF)	
EXTENSIONS, ADDITIONS, AND IMPROVEMENTS)	
TO THE EXISTING WATERWORKS SYSTEM OF THE)	
ASSOCIATION, AND (2) APPROVAL OF THE)	
PROPOSED PLAN OF FINANCING OF SAID)	
PROJECT, AND (3) AUTHORIZE AND PERMIT)	
INCREASE IN WATER RATES)	

O R D E R

West Laurel Water Association ("West Laurel") by application filed July 6, 1987, and revised during the proceedings in this matter, is seeking approval of adjustments to its water service rates, authorization to construct a \$653,000 waterworks improvement project and approval of its plan of financing for this project. The project funding consists of a \$653,000 loan from the Farmers Home Administration ("FmHA"). West Laurel will enter into a security agreement with FmHA for the loan. The loan will be repaid over a 40-year period at an interest rate of 5 percent per annum.

The proposed construction will make hydraulic improvements to the water distribution system. Drawings and specifications for the proposed improvements prepared by Warner A. Broughman and

Associates, Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Neither West Laurel nor the Commission sought a hearing in this matter. There were no intervenors and all requested information has been filed.

On September 10, 1987, the Commission staff conducted a field review of West Laurel's test period financial records. On November 25, 1987, the staff issued a report containing its recommendations. West Laurel filed a response to the staff report in which it stated its acceptance of the staff's findings and recommendations, but further stated that the loan amount approved by FmHA would be insufficient to finance the proposed construction project. Subsequently, West Laurel filed an amended letter of conditions from FmHA which approved additional funds but did not revise requested rates.

The revised loan amount affects both debt service and depreciation expense amounts, but not materially. West Laurel will now have a debt service coverage ("DSC") ratio of 1.16x as compared to 1.14x found in the Staff Report.

After careful review and investigation of the staff's recommendations and findings, the Commission is of the opinion that, after the staff's proposals are implemented, West Laurel will have adequate cash flow to meet its operating expenses and service its existing and proposed debt. Therefore, the Commission affirms the staff's recommended increase of \$105,970.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that:

1. Public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction consists of approximately 7.2 miles of 12- and 10-inch diameter pipelines, a booster pumping station, and related appurtenances. The low bids totaled \$565,120 which will require about \$653,000 after allowances are made for fees, contingencies, and other indirect costs.

3. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of the Commission.

4. West Laurel should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. West Laurel should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

6. West Laurel's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

7. West Laurel should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

8. The financing plan proposed by West Laurel is for lawful objects within its corporate purpose, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform these services. The financing plan is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

9. If under FmHA loan conditions West Laurel is notified and granted an option to accept a lower interest rate on the date of closing, West Laurel should file the following with the Commission within 30 days of the date of closing: (1) the FmHA notification of the lower interest rate and all correspondence from and to FmHA concerning this notification; (2) a statement of the interest rate accepted from FmHA; (3) amended pages to its bond resolution and an amended amortization schedule based on the different interest rate if a different rate is accepted; and (4)

full documentation of why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over the loan's repayment period in the event the option to accept the lower rate is not taken by West Laurel.

10. West Laurel should be granted rates which would produce additional annual revenues of \$105,970.

11. The rates in Appendix A are the fair, just and reasonable rates to be charged by West Laurel in that they should produce annual revenues from water sales of \$487,549.

12. Within 30 days of the date of this Order, West Laurel should file with this Commission its revised tariff setting out the rates approved herein.

IT IS THEREFORE ORDERED that:

1. West Laurel be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein.

2. West Laurel's financing plan consisting of an FmHA loan of \$653,000 be and it hereby is approved.

3. All proceeds from the FmHA loan shall be used only for the purposes stated in West Laurel's application.

4. West Laurel shall comply with all matters set out in Findings 3 through 7 and Finding 9 as if the same were individually so ordered.

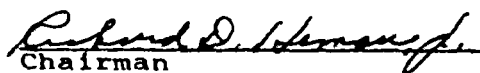
5. The rates in Appendix A are the fair, just and reasonable rates to be charged by West Laurel for service rendered on and after the date of this Order.

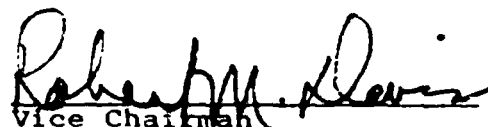
6. Within 30 days of the date of this Order, West Laurel shall file with this Commission its revised tariff setting out the rates approved herein.

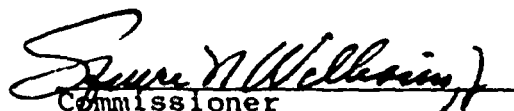
Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 17th day of February, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9960 DATED 2/17/88

The following rates and charges are prescribed for the customers in the area served by West Laurel Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES: Monthly

First 1,000 gallons	\$7.00 Minimum Bill
Next 2,000 gallons	3.25 per 1,000 gallons
Next 2,000 gallons	3.00 per 1,000 gallons
Next 5,000 gallons	2.50 per 1,000 gallons
Over 10,000 gallons	1.90 per 1,000 gallons
Wholesale Rate	\$1.35 per 1,000 gallons